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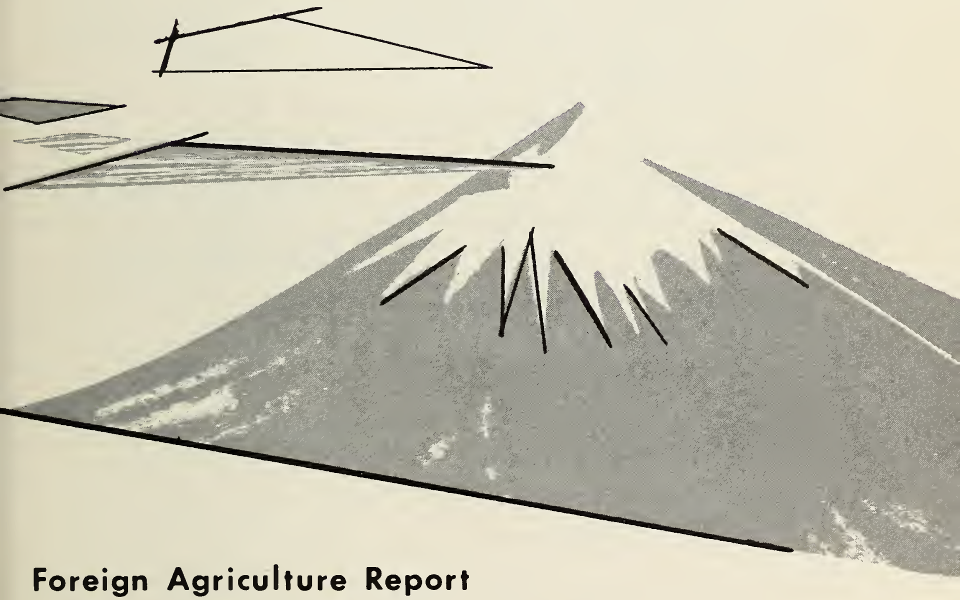
COMPETITION in the JAPANESE MARKET for AGRICULTURAL PRODUCTS

by Riley H. Kirby



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FOREWORD

Japan has been the United States farmer's No. 1 foreign market in several recent years. In this report the author reviews trends in Japan's agricultural import trade with the United States and other major suppliers. He calls attention to trade problems that exist because of certain special requirements of the Japanese market or for other reasons. He presents a brief review of developments in Japan's industries, which consume large quantities of imported agricultural raw materials, and through employment of much of the urban labor force, enable consumers to buy imported food products. This report attempts to forecast the future level of imports for the major agricultural items and the shares to be supplied by United States farms.

Mr. Kirby is a regional economist with the Foreign Agricultural Service. He has for several years been concerned with developments in Japanese agriculture and those aspects of the industrial economy that affect Japan's trade in farm products. He has worked directly with the Japanese on certain trade problems.

Gustave Burmeister

Gustave Burmeister
Assistant Administrator

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CONTENTS

Page

Summary 1

Introduction 3

Grains 7

  Wheat 9

  Rice 11

  Barley 13

  Corn 15

Soybeans 16

Tallow 18

Hides and skins 20

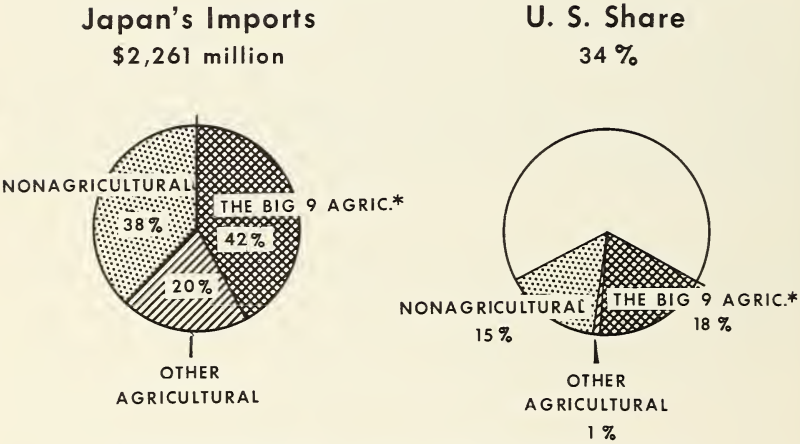
Cotton 24

Tobacco 29

Outlook 31

Japan's Imports and U. S. Share

Average 1951-1955



*IN ORDER OF IMPORTANCE: COTTON, WHEAT, SOYBEANS, RICE, BARLEY, TALLOW, HIDES AND SKINS, CORN, AND TOBACCO

USDA FAS-NEG. 1406

COMPETITION IN THE JAPANESE MARKET FOR AGRICULTURAL PRODUCTS

By Riley H. Kirby*

SUMMARY

Japan is a major trading nation of the world. Population growth and industrial development over the past 80 years or more have vastly increased the needs for food and industrial raw materials. Some of these needs have been met by increased production at home. But because of limited area and limited natural resources, Japan's dependence on overseas supplies will steadily increase. And exports of goods and services must expand to pay for the large volume of imports.

Japan's agricultural imports have trended upward, but not as sharply as total imports. They reached a total of $1,460 million in 1955 and will probably continue to rise in the years ahead. Imports of the "Big 9" items amounted to $958 million in 1956, exceeded only in 1954 when large shipments of rice were required to offset the poor crop of 1953. Because of price declines, the quantities of imports have increased more than the value increases would indicate. The United States share of the "Big 9" market has tended to decline. But with the expanded volume of imports, the actual quantities imported from the United States have been increasing, though less rapidly than those imported from other countries. Whether the United States can recover its share of the market in the future will depend principally on the opportunities it offers Japan for earning dollars and whether it can sell at competitive prices.

The Japanese Government is encouraging the use of wheat products, and though consumption has lagged in the face of two bumper rice crops at home, the upward trend will probably resume in the future. Hard wheats will be increasingly in demand, and Canada, with a higher level of output, will remain the dominant supplier. In supplying soft wheats, the United States will face Australia's bid for larger sales to Japan. But, as incomes and purchasing power increase, Japanese consumers will probably turn away from barley and wheat will take up some of the slack. And if Japan expands total imports of soft wheat, the United States could maintain its sales even if Japan buys 200,000 or 300,000 tons on competitive bid from Australia.

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Prospects for United States rice in the Japanese market are not too bright. Japan expects to continue its own large production and hold imports well below the high levels of 1954 and 1955. It will import long-grain rice from Burma and Thailand to support its export sales. But it will import less of the short-grain rice its consumers prefer, and for these supplies it will turn to nondollar sources to save dollars and to boost exports.

Use of barley for human consumption will probably decline. Imports will fall off and more of the imported supply will be used as feed for the increasing livestock population. Therefore, importers will have less objection to blue kernels and steely kernels. Canada and Australia, with increased production of barley, will continue to compete in the Japanese market, but the United States should hold its present share.

Imports of corn will increase somewhat and the United States will continue to be the dominant supplier.

United States soybeans have favorable prospects in Japan. United States varieties have been developed for a high oil content and are therefore more suitable for crushing than Chinese beans. Given greater efforts to meet the special Japanese quality requirements on content of foreign material and color of seedcoat, United States soybeans might find an expanded market for direct processing into food products. At the moment, the Japanese prefer Chinese beans for this use despite the higher Chinese prices.

Japan's imports of tallow are likely to increase. Efforts by United States suppliers to solve certain technical and trade problems of the past have proved rewarding, and the United States will continue as the dominant supplier.

Japan will import increasing amounts of hides and skins in the years ahead. The United States, as a leading world exporter, will continue to dominate the market. Only limited quantities will come from Argentina, the other large exporting country. Argentine hides are of excellent quality and enjoy a strong demand in Europe. But because of their higher prices and the much greater distance they must be shipped, Japan prefers to buy in the United States market.

The Japanese cotton industry has improved its position, and now that United States cotton is competitive in price, the United States should supply upwards of 850,000 bales.

Japan is aiming for self-sufficiency in tobacco and no doubt can produce supplies adequate for consumption. But there is a definite demand, even at higher prices, for cigarettes containing American flue-cured leaf. Japan's Monopoly Corporation obtains attractive profits from the sales of such cigarettes and probably will continue to import American flue-cured leaf for blending even if Japan becomes self-sufficient in other types of tobacco.

INTRODUCTION

The total area of Japan is only 91 million acres, and population has increased to 91 million persons. But only 15 percent of the land is arable, and population density is more than 4,200 persons per square mile of cultivated land. Japanese farmers do well to produce 80 percent of the nation's food requirements; they have little opportunity to produce industrial crops. Hence, the large textile industry of Japan depends entirely upon imports for its raw cotton and wool. Other industries require large imports of tallow, hides and skins, and rubber. As for mineral resources, Japan has to import all of its requirements of bauxite and phosphate rock, about nine-tenths of its crude oil, three-fourths of its iron ore, tin, and salt, and smaller but substantial quantities of other raw materials. Roughly speaking, Japan imports 20 percent of its food supply and 60 percent of its industrial raw materials. These imports are necessary to provide a food intake level that is not far above minimum requirements and to permit the operation of industries that provide jobs for a large segment of the labor force.

In addition, the population of Japan is growing by nearly 1 million persons per year, most of them absorbed into nonagricultural pursuits; industrial production has doubled since prewar years, and continues to rise. Thus, further expansion to accommodate annual additions to the labor force and to make possible greater production per worker will require still larger imports of food and industrial raw materials, including those produced by agriculture.

Japan's imports of all commodities averaged $2.3 billion a year during 1951-55 and reached $3.2 billion in 1956. Dollarwise, foodstuffs account for 28 percent of Japan's imports; foodstuffs and raw materials together, for 85 percent. Agricultural products comprise 62 percent of all imports. One-third of Japan's imports come from the United States, and of these 57 percent are agricultural.

Some say that Japan must export to live. This is true--but only because Japan must import to live. Japanese exports have increased from $1.3 billion in 1952 and 1953 to $2.0 billion in 1955 and $2.5 billion in 1956. Much of this increase resulted from larger exports to the United States. Even so, there remains a large deficit in Japan's commodity trade with the United States. Fortunately, this deficit has been more than offset by special dollar earnings from goods and services supplied to the United States military establishment in Japan and purchases in Japan by third countries having access to funds of the International Cooperation Administration. These earnings declined from the peak of $806 million in 1952 to $545 million in 1955, then increased to $591 million in 1956.

If the special dollar receipts show further declines, Japan will be unable to maintain its high level of imports from the United States without considerable expansion of exports to this country. Special dollar receipts constitute an important category in Japan's balance of payments, and in most years their presence has made it possible for Japan to show a favorable balance. Total foreign exchange receipts from all sources exceeded total payments by $293 million in 1956. This figure is substantially lower than the $494 million receipts excess in 1955.

With respect to dollar trade, the favorable balance rose from $359 million in 1955 to $424 million in 1956. Only in this trade was there an improvement over the previous year. In sterling trade, Japan's position changed from excess receipts of $119 million in 1955 to excess payments of $108 million in 1956. The total of Open Account trade decreased in 1956 because of a number of shifts from Open Account settlement to cash settlement basis. Excess receipts of $15 million in 1955 were replaced by excess payments of $23 million.

By the end of November 1956, Japanese foreign exchange holdings totaled $1.6 billion. Dollar holdings have been increasing steadily and are now at $1.2 billion--nearly double the level in early 1955. Sterling holdings have fallen sharply from mid-1956, to only $95 million. The Open Account holdings have increased to $257 million.

Since five-eighths of Japan's imports consist of agricultural products, Japanese officials have entertained hopes for increasing domestic agricultural output in order to reduce or at least limit import requirements and so conserve foreign exchange. During the first 50 years of Japan's modern development, farm output increased rapidly. But since the 1920's, increases have become more difficult. Land suitable for cultivation has become more scarce. Reclamation is costly, and reclaimed land is not always of the highest quality for agricultural use. Moreover, available data indicate that despite reclamation efforts, the amount of new land brought into use each year cannot compensate for the amount lost from farm use because of urban and industrial development.

After decades of struggle on the predominantly mountainous Japanese islands Japan's farmers have in cultivation today only 13.3 million acres. The 6.1 million farm families work this land with increasing attention to detail. Many parts of the country use double cropping regularly; some parts use multiple cropping. New methods of cultivation, improved crop varieties, fertilizers, more effective insecticides--farmers seize upon all these to obtain greater output. Above all they use labor unsparingly. As a result of such garden-like cultivation--possible when farms measure scarcely more than 2 acres--the Japanese obtain crop yields that are among the highest in the world.

In order to produce a maximum of food, Japanese farmers devote but little land to the production of industrial crops and livestock feed. They raise few livestock, and feed them largely on waste materials. More than 90 percent of the total planted area is devoted to food crops.

TABLE 1.--Japan: Area and production of principal crops, average 1950-54, annual 1955 and 1956

Crop	Planted area			Production		
	Average 1950-54	1955	1956	Average 1950-54	1955	1956
	1,000 acres	*1,000 acres*	*1,000 acres*	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*
Rice	7,464	7,617	7,694	[1] 9,193	[1] 11,855	[1] 10,464
Wheat	1,768	1,639	1,625	1,451	1,467	1,375
Naked barley	1,362	1,389	1,375	1,100	1,259	1,208
Common barley	1,042	1,071	1,050	1,078	1,147	1,132
Other grains	747	695	719	384	424	376
Sweet potato	923	930	940	5,729	7,180	6,540
White potato	495	522	505	2,537	2,908	2,690
Vegetables, fresh	1,069	1,107	(2)	7,060	7,789	(2)
Beans and peas, dried	538	724	692	213	359	223
Fruits	393	443	(2)	1,428	1,652	2,240
Soybeans	1,036	952	947	450	507	455
Rapeseed	447	513	623	218	270	320
Tobacco	146	185	189	100	150	151
Mulberry	434	462	473	[3] 14	[3] 17	[3] 19
Tea	76	95	105	[4] 117	[4] 161	[4] 156
Green manure crops	551	543	(2)	-----------	-----------	-----------
Forage crops	309	432	(2)	-----------	-----------	-----------
Other	362	501	(2)	-----------	-----------	-----------
Total	19,162	19,820	(2)	-----------	-----------	-----------

[1] Brown rice. [2] Not available. [3] Raw silk. [4] Million pounds.

TABLE 2.--Japan: Imports from specified sources, average 1951-55

Source	Total imports	Agricultural					Nonagricultural
		Total	Competitive			Noncompetitive	
			Total	9 principal items[1]	Other		
	Mil. dol.	*Mil. dol.*	*Mil. dol.*	*Mil. dol.*	*Mil. dol.*	*Mil. dol.*	*Mil. dol.*
United States	768	434	434	412	22	1	334
China	38	28	28	15	13	1	9
Taiwan	64	60	55	16	39	5	4
Thailand	66	64	64	59	5	(2)	2
Burma	44	44	44	40	4	(2)	(2)
India	66	23	22	17	5	(2)	43
Pakistan	75	75	75	67	7	(2)	(2)
Canada	110	78	78	72	6	(2)	32
Mexico	89	86	86	85	1	(2)	3
Brazil	44	43	41	30	11	3	1
Argentina	38	35	35	19	16	0	3
Egypt	34	26	26	25	(2)	0	8
Australia	148	136	136	19	117	(2)	12
Others	677	264	197	68	131	65	414
Total	2,261	1,396	1,321	944	377	75	865

[1] The following nine items constitute 95 percent of Japan's imports from the United States: Wheat, rice, barley, corn, soybeans, tallow, hides and skins, cotton, and tobacco. [2] Less than $500,000.
Note: Because of rounding, figures do not always add to totals shown.

TABLE 3.--Japan: Summary of agricultural imports, total and from the United States, average 1951-55

Commodity	Total imports		Imports from the United States		
	Quantity	Value	Quantity	Value	Percent of total (value basis)
Nine competitive items:	*1,000 m.t.*	*Mil. dol.*	*1,000 m.t.*	*Mil. dol.*	*Percent*
Wheat	1,895	158	1,114	96	60.8
Rice	1,107	193	216	42	21.8
Barley	775	63	335	26	41.3
Corn	169	13	107	9	69.2
Soybeans	448	58	376	48	82.8
Tallow	82	17	76	16	94.1
Hides and skins	49	27	28	13	48.1
Cotton	[1] 2,042	406	[1] 809	156	38.4
Tobacco	8	9	4	6	66.7
Total	-------------	944	------------	412	43.6
Other competitive items	-------------	377	------------	22	5.7
Noncompetitive items	-------------	75	------------	1	1.1
Total agricultural imports	-------------	1,396	------------	434	31.1

[1] 1,000 bales of 480 pounds net.
Note: Because of rounding, figures do not always add to totals shown.

Failing to produce adequate food and industrial crops at home, Japan has turned to many sources to supply her needs. During 1951-55 Japan's imports of all agricultural commodities averaged $1.4 billion a year. The United States supplied 31 percent of this amount, and 12 other countries supplied 50 percent. The remaining one-fifth came to Japan from widely scattered sources. The second largest supplier in the Japanese agricultural market is Australia, which furnishes wool--the largest item in the trade, though wheat and barley are also important. Mexico, the third largest supplier, sends cotton as its only significant item. Canada holds fourth place, with wheat and barley its two principal commodities. Fifth in rank is Pakistan, cotton being by far its major commodity. No other country besides these supplies as much as 5 percent of Japan's agricultural imports.

If such items as rubber, coffee, and bananas are deducted from the total of Japan's agricultural imports, there remains a total of $1.3 billion consisting of farm products such as the United States could supply. This large group constitutes, for the United States, Japan's competitive agricultural imports. The United States has supplied 33 percent of this market--some $434 million a year. Nine commodities--wheat, rice, barley, corn, soybeans, tallow, hides and skins, cotton, and tobacco--have made up 95 percent of this trade. For these the United States share of the Japanese market reached 44 percent.

These, then, are the "Big 9" in American agriculture's trade with Japan--they constitute 72 percent of Japan's total imports of competitive products. These are the products that Japan can take in quantity--and that the United States is prepared to supply in quantity. Strongest competitors for this market are Mexico (9 percent of the total), Canada (8 percent), Pakistan (7 percent), and Thailand (6 percent). No other country supplies as much as 5 percent of Japan's imports of this group of "Big 9" commodities. Other countries are important, however, as suppliers of individual commodities within the group.

Because Japan has experienced difficulty in balancing its merchandise account since World War II, the government has imposed restrictions on the use of foreign exchange. All commercial imports require licenses. Food and basic raw materials receive first priority. Twice a year the government budgets foreign exchange for merchandise imports. This budget allows for three types of import systems. The Automatic Approval system provides for the licensing of specified commodities on application, with no value limit for any commodity on the Automatic Approval list, but possibly with restrictions as to area or country from which import may be made. The government almost always approves licenses, but may suspend applications if the exchange allocated for a specific commodity or area becomes exhausted. This system gives importers a large degree of flexibility. The Funds Allocation system restricts far more severely the amount of imports to be allowed and the source from which purchases may be made. Furthermore, applications are accepted only during specified periods. The Global Quota system provides for allocations by commodity only, without regard to the possible source of imports.

The current level of Japan's tariff is considered moderate but protective. Duties on some basic agricultural commodities either are low or have been suspended.

United States agricultural interests have a big stake in Japanese urban prosperity. Japanese industry buys and processes their cotton, tallow, and hides. And the large urban population employed by that industry constitutes the principal market for their food crops. Only with continued prosperity can Japan maintain the large agricultural imports it must have in order to supply its industry and feed its people. But continued prosperity for Japan requires a thriving export trade. Thus, in the face of inconvertible world currencies (which cannot be used to purchase dollar goods), the future of the Japanese market for United States farm products depends in large degree upon the United States market for Japanese exports.

GRAINS

Significant changes have occurred in the Japanese diet since the end of World War II. Rice is still the major source of energy for the Japanese people, but it no longer dominates the diet as it did before the war. Per capita consumption is today less than 80 percent of the prewar 300 pounds per year. On the other hand, per capita consumption of wheat is now about 55 pounds per year compared to 21 pounds prewar, and consumption of barley has increased from 30 pounds to more than 40 pounds per person per year.

During the early postwar years when Japanese food production was at a reduced level, Japan imported wheat and barley because world export supplies of rice were far below prewar. Even at present the world has for export much less rice than prewar. In addition, Korea and Taiwan, which had supplied nearly all Japan's rice imports before the war, no longer do so. Korea exports no rice at all today; Taiwan, much less than prewar. Both these countries normally produce short-grain rice--the type preferred by Japanese consumers.

Before the war Japan imported about 1.8 million metric tons of rice and no barley, and was a small net exporter of wheat. Today, with home production of wheat about the same as prewar, Japan imports about 2.2 million metric tons of wheat. Rice output is slightly above prewar, and imports average 1.1 million tons or less than two-thirds of the 1931-40 volume. And while barley production is up about 40 percent, imports have mounted to 775,000 tons. Although population is increasing somewhat less rapidly than a few years ago, further increases in domestic food production will be

TABLE 4.--Japan: Imports of wheat, by country of origin, 1950-56

Year	United States	Canada	Argentina	Australia	Others	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
1950..................	868	138	211	247	109	1,573
1951..................	1,204	388	15	45	2	1,654
1952..................	1,190	443	0	28	1	1,662
1953..................	928	686	33	40	0	1,687
1954..................	1,095	808	264	20	0	2,187
1955..................	1,154	872	79	182	0	2,287
1956..................	1,080	904	42	251	0	2,277

TABLE 5.--Japan: Imports of rice, by country of origin, 1950-56

Year	United States	China	Taiwan	Thailand	Burma	Spain	Italy	Egypt	Others	World
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
1950......................	51	19	0	329	145	0	0	24	104	672
1951......................	41	7	73	316	162	0	8	176	16	799
1952......................	276	0	61	317	126	47	108	0	44	979
1953......................	178	0	54	424	200	38	27	0	158	1,079
1954......................	346	75	43	380	327	49	67	0	145	1,432
1955......................	243	133	183	341	236	29	66	10	5	1,246
1956......................	20	113	89	130	267	57	32	35	17	760

TABLE 6.--Japan: Imports of barley, by country of origin, 1950-56

Year	United States	Iraq	Canada	Australia	Others	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
1950..................	99	70	12	26	73	280
1951..................	620	47	124	76	14	881
1952..................	314	83	475	70	4	946
1953..................	211	3	274	211	7	706
1954..................	205	0	333	217	9	764
1955..................	326	0	104	146	0	576
1956..................	399	(1)	221	301	1	922

[1] If any, included in "Others."

TABLE 7.--Japan: Imports of corn, by country of origin, 1950-56

Year	United States	Thailand	Argentina	Union of So. Africa	Others	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
1950..................	19	0	0	0	0	19
1951..................	50	4	0	0	2	56
1952..................	47	10	0	0	10	67
1953..................	164	13	0	0	10	187
1954..................	76	22	82	0	15	195
1955..................	199	48	4	48	44	343
1956..................	135	44	31	44	91	345

difficult to achieve. Japan will probably require annual imports of about 4 million metric tons of food grains for some years to come. The quantity of each grain may vary with, or may depend upon, fluctuations in domestic production. Furthermore, continued economic growth and prosperity may enable consumers to shift from the cheaper barley to wheat products or return to rice. It seems likely, however, that the consumption of wheat is now well established in Japan. The Japanese are still rice-eaters, but in the cities at least, the strong tradition of rice eating has been somewhat modified. Many of the younger people, especially, have developed a taste for bread and other wheat products. Also, the nutritional merits of wheat foods have received wide recognition.

Not the least important factor determining the composition of food grain imports is Japanese Government control over foreign exchange.

Wheat.--In the immediate postwar years the import of wheat was a necessity. In more recent years the Japanese have found it practical to continue and even expand wheat imports. They can purchase equivalent food energy at much less cost in foreign exchange by importing wheat rather than rice. Furthermore, the Japanese have become conscious of the need for diversity in diet, and the government has taken steps to promote the consumption of wheat because of its nutritional advantages.

Japan's average annual wheat imports have increased from about 1.7 million metric tons in 1951-53 to about 2.2 million tons over the past 3 years. These imports have come almost exclusively from four sources: the United States, Canada, Argentina, and Australia. The United States has been by far the principal supplier. Imports from this source have generally run above 1 million tons; but the United States share of total imports has declined from more than 70 percent in 1951 and 1952 to 48 percent in 1956.

Canada is the second largest supplier. Imports from that source have more than doubled during the past few years; they reached 900,000 tons in 1956, making up 40 percent of total Japanese imports compared to about 25 percent in 1951 and 1952. Canadian production has increased and so have exports, especially to Japan. That country now accounts for more than 10 percent of Canada's exports compared with about 2 percent in 1949 and 1950.

Australia, though a smaller supplier, has shown the greatest percentage gains in the Japanese wheat market. In 1956 Japan imported 250,000 tons from Australia, more than six times the average of 1951 and 1952. Imports from Argentina have been rather sporadic. They reached 265,000 tons in 1954, but amounted to less than 80,000 tons in all other years.

Traditionally, the Japanese have eaten wheat mainly in the form of noodles, with smaller amounts in the form of vermicelli and confectionery products. Japan grows mostly the soft wheat varieties well adapted to making noodles. Furthermore, the scarcity of fuel restricts home cooking to boiling or steaming. This, too, has favored the use of noodles rather than bread. In addition most homes do not have the facilities for baking bread. The younger generation, especially in the cities, has developed a taste for bread. But the older people still prefer noodles.

Wheat products other than noodles are made in the numerous small bakeries that have been established, mostly in the larger cities and towns. These small bakeries, adapted to Japanese conditions, can produce good bread from low-protein blends of flour containing a large proportion of soft wheat. The slow-speed methods they use are more suitable for mixing dough from this flour than are the high-speed mixers used in larger commercial bakeries. Furthermore, small bakeries can be located close to consumers so that housewives can buy directly. This holds transportation and distribution costs to a minimum.

Production of bread in Japan has tripled since 1949 and now accounts for about 1 million tons of wheat annually, or 30 percent of total wheat consumption. Along with the increase in consumption of bread has come a marked increase in the use of hard wheats. During the 3 years 1951-53 average annual imports of hard wheat, mainly from Canada, were 522,000 metric tons, or about one-third of total imports. During 1954-56 such imports nearly doubled, and made up 44 percent of the total. Canada has enjoyed most of this market increase, but Argentina benefited as well. Imports from the United States, however, have not grown in proportion to total wheat imports. Practically all the wheat we ship to Japan is soft wheat produced in the Pacific Northwest. Japan's total imports of soft wheat increased by only 10 percent from 1951-53 to 1954-56, and shipments from Australia accounted for this increase. Thus, the volume of imports from the United States is no larger now than it was in 1951-53. The proportion of total imports and the proportion of soft wheat imports coming from the United States have both decreased since 1951.

Consumption of wheat products will probably continue to increase in Japan. The government is encouraging the use of wheat in the diet both because of its nutritional advantages and as a means of conserving foreign exchange. Bread is provided in the school lunch program and in other institutional lunch programs. Much depends, however, on the relative prices of wheat and rice. Under the rice control program the government attempts to sell rice cheaply to the consumers. There have been losses on the rice account for several years, covered by government profits on imported wheat and barley. The government does not control wheat production, but it does guarantee relatively high floor prices for domestic producers. Imported wheat is sold to the millers at the same high prices as the domestic wheat, the government absorbing the difference between import price and government sale price, amounting to $25 to $30 per ton. If Japanese millers could buy wheat at world prices, wheat products might compete even more strongly with rice in the local market.

The Japanese would like more hard wheat to improve the blend of flour for breads. The hard wheats sell at a premium, however, and Japan has had to guard its expenditures of foreign exchange. But, as the per capita income level increases, more people in Japan will be able to afford higher quality breads. Increased imports of hard wheat will probably come from Canada. The hard wheats of the United States not only find ready markets at home and in Europe, but are at a transportation disadvantage in moving to West Coast ports in competition with Canadian offerings.

An increase in bread consumption will probably require a larger volume of soft wheat imports for use in blending flours. Whether Australia will continue to supply the increased needs of soft wheat remains to be seen. Australian wheat is said to have an advantage in being more glutinous than United States wheat. On the other hand, flour from Australian wheat is darker and therefore not so favored by millers and bakers. Also, the freight charge is about $1.00 per ton higher from Australia than from the United States.

Japan participates in the International Wheat Agreement and has imported under it 1 million metric tons a year. Several of Japan's bilateral trade agreements also involve wheat imports. All foreign wheat is imported by the Food Agency through registered importers. For each fiscal year (Apr. 1-Mar. 31) the government establishes an import plan as a guide to the volume of imports of each type of wheat. Wheat is imported on the global basis: that is, the source of imports for each type of wheat is determined at the time of purchase, depending upon prices, quality, delivery time, and foreign exchange balances.

The preliminary import target for the Japanese fiscal year 1957 (Apr. 1, 1957, to Mar. 31, 1958) is 2,222,000 metric tons. This is down slightly from actual imports in calendar years 1955 and 1956 because of larger stocks being held at present and because of reduced consumption of wheat products resulting from increased supplies of indigenous rice. The Japanese Wheat Millers' Association is urging the Food Agency to limit soft wheat imports to no more than 53 percent of total imports and maintain imports of hard and semihard wheats at 47 percent. The wheat import target for 1960 is 2,490,000 tons, or about 30 percent above average annual imports during 1951-55. United States wheat should continue to find a good market in Japan. But the United States may have difficulty in enlarging its sales of soft wheat there because of the increasing demand from millers and consumers for hard wheats and because of the Australian efforts to sell soft wheat.

Rice.--The Japanese prefer the short-grain, semiglutinous varieties of rice to the long-grain, hard varieties. This is a matter of taste developed over centuries of use. They also generally prefer domestically produced rice to imported short-grain rice. Imported long-grain rice is least acceptable, and consumers sometimes do not accept it in their rations. Rural villagers even prefer imported barley to most imported rice.

Rice is the only food remaining under government control in Japan. Licensed agencies collect and distribute the domestic crop. The increased supplies of rice available from the all-time bumper crop of 1955 made it possible to enlarge the ration to consumers. The resulting increase in consumption of rice and the corresponding decline in consumption of wheat and barley indicate the continued preference of the Japanese people for rice.

Imported rice is handled by designated firms and is released to consumers under ration. In planning rice imports the Japanese Government must consider consumer preferences, relative prices, quality, and availability of foreign exchange. Because of limited world export supplies, the government cannot fully satisfy the preference for short-grain rice. However, Japan does not always buy this rice to the extent of available supplies; in fact, it has bought long-grain rice from Burma and Thailand each year. Not only is this rice somewhat cheaper, but such purchases fit in with Japan's broad policy for expanding trade in Southeast Asia, and enable Burma and Thailand to buy Japan's exports. Rice imports from these two sources reached a high of more than 700,000 metric tons in 1954, following Japan's poor rice crop of 1953. In 1956, when total imports declined to only 760,000 metric tons, imports from Burma and Thailand were nearly 400,000 tons.

For several years the United States was a principal supplier of rice to Japan--primarily short-grain rice produced in California, but some long-grain rice from the Gulf States as well. The California rice found ready acceptance in Japan, but it required dollars for import, and continued purchases gave no promise of increased export trade with the United States. The huge rice crop of 1955 permitted Japan to cut back imports of short-grain rice in 1956 and conserve dollars at the same time. Imports from the United States were reduced to 20,000 tons in 1956 compared to the 1951-55 average of 216,000 tons. Imports from other short-grain sources were cut less drastically.

Both Spain and Italy have supplied substantial quantities of short-grain rice over the past 5 years. Japan's purchases from these sources have generally been related to specific export programs. Imports from Spain, for example, have been tied in with exports to Spain of iron and steel products, trucks, and machinery.

Imports of short-grain rice from Taiwan and Communist China increased significantly in 1955 and 1956 over earlier years. Communist China is making a strong bid to sell rice to Japan. It has offered rice at tempting prices apparently designed to undercut sales by other export countries. The Japanese Ministry of International Trade and Industry is urging large imports from China as a means of increasing Japan's fertilizer exports.

The Food Agency, however, argues that only minimum imports are needed and points to the large stocks of rice now held as a result of two successive bumper crops in Japan. Overall rice stocks increased from 1,281,000 metric tons milled rice equivalent on November 1, 1954, to 2,351,000 tons in 1955 and 2,835,000 tons in 1956. Stocks of imported rice increased gradually during calendar 1956, reaching 600,000 metric tons by November 1. This was more than double the stocks held a year earlier. Responding to this improved supply situation, the government cut back its planned purchases for the Japanese fiscal year 1956 to 484,000 metric tons. This included only 130,000 tons of short-grain rice, of which 90,000 tons had been purchased from Taiwan and Communist China during the first 9 months. There were no purchases from the United States.

Preliminary plans for the Japanese fiscal year 1957 provide for a further reduction of rice imports to 407,200 metric tons, of which only 70,500 tons is to be short-grain rice. Certainly this plan offers little or no opportunity for sales of California rice. The Ministry of International Trade and Industry is urging purchases from other sources where prices are somewhat lower, where dollars are not required, and where prospects are brighter for increasing Japanese exports.

As for trade in future years, Japan hopes to increase domestic production to about 10.6 million tons by 1960 and hold imports to less than one million tons. A considerable part of such purchases would likely be long-grain rice in order to further the export promotion policy. And Japan will import short-grain rice for the same reason--probably from Taiwan, Communist China, Spain, and Italy (to the extent available). The United States, to participate in the market at all, would have to offer California rice at unusually attractive prices, because the Japanese do not feel that such purchases contribute to expanded exports.

Barley.--Asian countries have used barley as a staple food for many years. Before the war Japan produced 848,000 metric tons of naked barley and 770,000 tons of common barley, mostly for human consumption. There was no significant foreign trade. Since the war, the shortage of rice has led to an even wider use of barley. Domestic production has increased markedly, and imports during 1951-55 averaged 775,000 tons.

The Japanese have used barley as a rice supplement or extender. In pressed form, it is cooked in a mixture with rice, and in final form is not too different from rice in texture and color. It is also used in soups. It has proved a relatively cheap food and thus has been widely used by rural people and the working population in urban centers. In fact, many farmers sell their rice and buy polished barley to eat.

From the standpoint of nutrition, the consumption of barley offsets certain deficiencies of rice.

Most acceptable for processing into pressed form are the small-grained varieties with white kernels. Blue kernels are objectionable because they stand out in the cooked mixture of rice and barley. Some types of barley have a vitreous layer remaining after milling, and these "steely" kernels also make the barley undesirable for human consumption. A further substantial demand exists for barley as livestock feed in Japan.

Barley does not come under government control, but the Food Agency purchases any quantity that farmers offer at officially fixed prices. Prices are set on July 1 each year, usually at such a level as to attract a large portion of the domestic barley that enters commercial channels. The Food Agency buys through the assigned barley collectors and sells to barley processors at official prices. Producers may, if they wish, sell directly to barley processors at free prices; these prices, however, are strongly influenced by the official prices.

To encourage domestic production, the Food Agency pays considerably more for Japanese barley than for foreign barley. It also sells the domestic barley to processors at prices higher than those brought by imported barley. However, Japanese consumers prefer the domestic type, and the higher prices reflect its superior quality.

The Food Agency is the exclusive importer of foreign barley through registered firms. The import duty has been suspended. The agency imports barley on a global basis: that is, price and quality at the time of purchase chiefly determine the sources from which it buys, though availability of foreign exchange and prospects of promoting exports are also important factors.

Barley imports averaged 775,000 metric tons annually during the 5-year period 1951-55. In 1956, imports reached a postwar high of 922,000 tons. The United States has been a leading supplier of barley to Japan; imports from this country have made up more than two-fifths of total imports. Canada has supplied one-third and Australia nearly one-fifth of the total.

Japanese barley processors prefer to import 6-rowed barley rather than 2-rowed barley. However, the Japanese shift their purchases from one type to the other depending upon the prices. The 6-rowed barley generally suits the Japanese in the size of kernels, but has presented the problem of blue kernels. United States Western 6-rowed barley tends to be blue. However, barley, like many other crops, reacts to soil and climatic conditions. Certain varieties, principally the Atlas and Coast varieties grown in certain areas of California, yield in most years a barley crop having little or no blueness, and quite suitable for Japanese processors. There remains, of course, the problem of mixing with other barleys at the elevators. The Japanese have indicated that they will accept barley with not more than 10 percent of blue kernels. The Food Agency is now conducting research to determine whether light-colored blue barley can be bleached economically.

Imports from Canada and Australia have consisted mostly of 6-rowed barley, also presenting the problem of blue kernels.

The 2-rowed barleys are generally white and from this standpoint more suitable for Japanese uses. However, the Japanese claim that the tendency towards larger kernels offsets this advantage. Furthermore, they object to the "steely" kernels which occur more in the 2-rowed than in the 6-rowed varieties.

Japan plans to import 873,000 metric tons of barley in fiscal year 1957--the same amount as it actually purchased in fiscal year 1956. For succeeding years Japanese officials anticipate a decline in barley imports. Increased purchasing power and dietary improvement are expected to result in decreased consumption of barley. Furthermore, some officials are urging changes in the pricing system that would encourage farmers to shift from wheat to barley, which competes better with foreign grains because of the consumer preference for the domestic product. Thus a larger proportion of the total barley supplies would consist of domestically produced barley. As a corollary, imports of wheat would be expected to increase. In Japan's forward planning for economic development, barley imports for fiscal year 1960 are listed at only 400,000 metric tons. This low figure may prove to be unrealistic, but it does indicate the direction of Japanese thinking.

Price, quality, and timely shipment of the required type of barley will continue to affect Japan's decisions on the quantities it buys from the various barley-supplying countries. Plans for increased domestic barley production, reduced human consumption, and increasing livestock numbers point toward greater use of imported barley for livestock feed. Therefore, beyond the next few years, the type of barley may be of less importance.

Corn.--Corn is a minor crop in Japan. Nearly all of the production is fed to livestock. The rapid growth in Japan's livestock population has increased requirements for feed concentrates, of which corn makes up a large part.

Production of corn for grain has amounted to about 70,000 metric tons during the past few years. Imports have increased sharply--from 19,000 tons in 1950 to 345,000 tons in 1956. During this period the United States has been the major supplier in all years except 1954, when Argentina held the lead. Imports from the United States have trended upwards, though with considerable fluctuation. Heaviest imports from the United States occurred in 1955, when the trade amounted to about 200,000 tons, worth $15 million to our farmers and traders.

The Government of Japan handles a part of the imports of corn and sorghum in order to stabilize the price of feed.

Wheat, wheat bran, and soybean meal may be procured for the same purpose if deemed necessary. The government procures about one-third of the corn imports directly; private traders handle the remainder. Throughout fiscal year 1955 and the first half of fiscal year 1956 the government set its sale prices for corn below the import prices, accumulating the loss in the Food Control Special Account. This amounts to a subsidy for the livestock farmers.

Throughout 1955, the prices of corn from the United States were somewhat above those of corn from Thailand and the Union of South Africa--the two next largest suppliers. In 1956 United States prices were in line with South Africa's, and Thailand's were highest.

SOYBEANS

Though soybeans have a relatively short history in the United States, they have long formed an important part of the diet in the Far East. Before World War II Japan produced 325,000 metric tons of soybeans and imported, largely from China, an additional 736,000 tons. Nearly the entire supply was processed into such food forms as miso (soybean paste), shoyu (soybean sauce), and tofu (soybean curd).

Since the war Japanese production of soybeans has increased, averaging 450,000 tons annually during 1950-54. Farmers retain about 275,000 tons to process for their own use. The remainder, 150,000 to 200,000 tons depending on the size of crop, is sold for commercial processing into soybean food products. It finds its largest use in the production of tofu, with relatively small amounts being made into miso, and practically none being used for shoyu or for extraction of oil. The Japanese Government has provided price supports for soybeans since June 1956. It undertook this program because of declining farm prices in 1955.

Imports of soybeans declined to only 3,000 tons in 1946, but by 1955 and 1956 recovered to the prewar level. Imports today come principally from the United States. Communist China supplied only 12 percent of total imports during 1951-55, but the proportion has been trending upward and reached 25 percent in 1955. Brazil has supplied small quantities since 1952.

About 500,000 tons of the imported beans, including most of those from the United States but practically none of those from China and Brazil, are used for extraction of oil. About half of the residual soybean cake goes into the production of shoyu. This cake, in fact, forms a principal component of shoyu; whole beans, mainly imported, make up only 10 percent of the total materials. The remaining half of the soybean cake is used for livestock feed and in the production of miso, monosodium glutamate, and glue.

Chinese and Brazilian beans, like those produced domestically, are nearly all processed into food products, principally miso. The Japanese food processing industry prefers these beans because they contain less foreign material than United States soybeans do. Foreign material causes difficulty, of course, when soybeans are used for food; and when the beans are crushed for oil, it affects the quality of the cake, much of which is also used for food processing. Corn and weed seed are especially undesirable. Japanese soybean processors had become accustomed to using clean beans before the war--beans supplied by their own farmers and from China. Most of them, therefore, do not have cleaning facilities. Over the past couple of years the United States has succeeded in lowering the foreign material content of soybeans sent to Japan. But to make United States beans completely competitive for food processing will require additional efforts.

The Japanese also object to the presence of soybeans with green seedcoat in shipments purchased as yellow soybeans. The green color does not affect the oil extraction, but these beans yield a darker cake, less desirable for use in food processing.

United States soybeans have been developed for higher oil content and Japanese oil processors like them for this reason. Consumption of vegetable oil has been increasing and is expected to show further gains. The principal oil-bearing materials produced in Japan are soybeans, rapeseed, and rice bran. But the Japanese use their soybeans for food processing rather than for oil, and their rice bran mostly for livestock feed. Consequently, rapeseed is the only important home-grown oilseed used for oil. Production of rapeseed has averaged 250,000 tons in recent years. Farmers retain about 40 percent of this output to process for their own use and sell somewhat more than 100,000 tons to the mills for processing. Out of 237,000 tons of vegetable oils produced by commercial mills in 1955, less than one-fourth came from home grown oilseeds. Soybean oil represented about half of the oil produced from imported materials.

TABLE 8.--Japan: Imports of soybeans, by country of origin, 1950-56

Year	United States	China	Brazil	Others	Total
	1,000 m.t.	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*
1950.......	95	108	0	1	204
1951.......	293	6	0	11	310
1952.......	162	1	2	2	167
1953.......	409	24	14	1	448
1954.......	443	46	18	1	508
1955.......	572	204	31	1	808
1956.......	536	166	12	3	717

To meet an increasing demand for vegetable oils, Japan will require heavier imports of oilseeds. It cannot greatly expand production of rapeseed on a permanent basis, because rape competes with wheat and barley for crop area. When the rice crop is large, however, farmers may divert some wheat and barley acreage to rapeseed. But over the years Japan will depend increasingly upon foreign sources of oilseeds. The United States trade should continue to provide a large part of Japan's soybean needs. Not only do United States soybeans have a higher oil content than Chinese beans, but they have had lower prices. The United States beans might find an even larger market in Japan for direct processing into food products if they could meet special quality requirements for that purpose.

The preliminary import target for fiscal year 1957 is 850,000 tons, with 420,000 tons to be imported during the first half. Specific exporting countries have received no import quotas, although imports of 10,000 tons are scheduled for the first half of fiscal year 1957 from "Open Account" countries. These will come mostly from Brazil. Otherwise, soybean imports come under the global trade system wherein price, quality, and time of delivery are important factors. To save dollars and expand exports, imports from Communist China may receive some preference.

Soybeans were exempt from the 10-percent import tariff until September 30, 1956, but this duty was imposed effective October 1. It is not expected to reduce imports in the immediate future, but it will tend to make other oilseeds more competitive. Although soybeans are still nearly all imported through the foreign exchange fund allocation procedure, the United States has continued to provide a substantial share of the imports. Only small amounts are imported under the Automatic Approval system, and these only from "Open Account" areas. Japanese traders had hoped that the Automatic Approval system might be opened to the dollar area this year, giving them more ease and flexibility in importing. Under tight controls, government exchange allocations do not enable traders and manufacturers to take advantage of favorable price situations. The tariff and government limitations on imports tend to hold up domestic prices for the benefit of farmers. Controlled imports also assist the small crushers, for the allocation system assures them of a share in an unsatisfied market. Should controls be eased, the more efficient large-scale producers could quickly expand production and undersell the small plants. Although the big crushers would profit more from a liberalized import policy, they also benefit to some extent from the import restrictions that keep oil prices up.

TALLOW

Tallow has become increasingly important among Japan's agricultural imports. Some 100,000 metric tons are imported annually. The United States supplies 90 percent or more of this amount, and the business brings $13 million a year to American farmers and traders.

Japan must import nearly all its tallow requirements, since it produces only about 3,000 tons. The principal use of tallow in Japan is in making soap. Before the war, the Japanese industry used domestically produced whale and fish oils for this purpose, but these are now used as edible oils.

Production of soap has recorded steady advances during the past few years. Output was 293,000 metric tons in 1956, compared with 279,000 tons in 1955 and 148,000 tons in 1951. Washing or laundry soap accounts for the major part of production, followed by toilet soap and powdered soap.

Industry officials anticipate a continued rising demand for soap in the immediate future, with the emphasis on powdered soap. They note with satisfaction the rapid increase in the number of electric washing machines used in Japanese homes--from less than 400 in 1949 to 852,000 in 1955. In spite of this tremendous increase, it is estimated that only one out of every 21 Japanese families has a washing machine. Thus, a vast untapped market potential remains to be satisfied as the Japanese economy expands and per capita incomes increase.

Up to the present, domestic soap makers have not experienced competition from mineral and alcohol-base detergents. Production of detergents has tripled since 1951, but still is only 5 percent of total soap and detergent production. Since Japan has relatively soft water, detergents offer no marked advantage, and are not expected to compete seriously with soap in the foreseeable future.

Thus the outlook for tallow consumption in Japan and hence for tallow imports--since production is negligible--is promising. The United States, the world's largest tallow exporter, counts Japan as its largest foreign market. Japan takes about 15 percent of total United States exports and 90 percent of West Coast exports.

The United States also ranks as the dominant supplier of Japan's tallow imports, and has taken steps to solve certain trade problems in order to maintain and even increase its sales to Japan. A tallow survey mission traveled to Japan last year to discuss technical and trade problems with Japanese importers and industry officials. A problem of alleged shortage in shipping weights had arisen because of differences in the methods of sampling and types of equipment used. Some serious problems in the quality of bulk shipments of tallow had also arisen. These difficulties were traced to misunderstandings with the steamship companies regarding proper procedures in melting the tallow preparatory to unloading. The companies are now cooperating and no further quality problems of this kind are expected.

Since not all Japanese plants have adequate storage, a considerable volume of tallow is imported in drums. Problems encountered in drum shipments were frequently traced back

TABLE 9.--Japan: Imports of tallow, by country of origin, 1950-56

Year	United States	Canada	Australia	New Zealand	Others	Total
	1,000 m.t.	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*	*1,000 m.t.*
1950........	13	0	0	0	0	13
1951........	30	1	0	1	0	32
1952........	64	1	(1)	(1)	0	65
1953........	95	2	2	1	0	100
1954........	91	2	1	1	0	95
1955........	98	1	3	1	14	117
1956........	95	2	5	3	1	106

[1] Less than 500 tons.

to the United States. Some tallow just up to minimum quality specifications arrived in unsatisfactory condition because of deterioration in transit. Some perfectly good tallow was ruined by packing in unclean drums. Upon return from Japan the survey mission undertook to impress upon United States tallow producers and exporters the importance of packing quality tallow and using clean drums to insure the satisfaction of Japanese buyers.

Beef tallow was imported under the Automatic Approval system until March 31, 1954. At that time, however, foreign exchange difficulties led to its removal from the Automatic Approval list. Since then imports from certain countries, including Australia and New Zealand, have been returned to Automatic Approval. Japanese traders have hoped that tallow from the dollar area might also be returned to Automatic Approval, for this would permit more efficient operation. And with no restrictions as to source of import, the United States too would benefit, because of its favorable prices. However, this action seems to be indefinitely postponed, owing to current foreign exchange difficulties.

HIDES AND SKINS

Japan is not a major livestock country, and its production of hides and skins is far from adequate to meet domestic needs. Since 1950 it has steadily increased imports, to supply the growing market for leather. The United States has supplied an increasing share of these imports--about two-thirds over the last three years.

At the end of 1954 Japan had some 750 slaughterhouses, most of them small-scale operations. No reliable statistics on the production of hides and skins are maintained; in fact, official data on production are derived from statistics on slaughter. These do not include some small numbers of livestock slaughtered on farms. Furthermore, a large number of hides are spoiled during removal ("take-off") or because of improper curing. Therefore, statistics based on recorded deliveries of hides and skins to tanneries are probably more reliable as an indication of production. On this basis, production of hides and skins is estimated at about 10,000 metric tons, wet salted weight. Two-thirds of this amount is cattlehides and calfskins, about 30 percent is pigskins, and most of the remainder consists of horsehides.

Total consumption of hides has trended upwards, in response to the increased demand for leather footwear and secondarily for other leather products. Nearly all of the increase in consumption has come from expanded imports. Total imports mounted to 62,000 metric tons in 1955 and 76,000 metric tons in 1956. Cattlehides are by far the largest import item--76 percent of the total in 1955. Calfskins and kipskins are next in importance, but amount to only 13 percent of the total.

The United States in 1955 supplied 73 percent of Japan's total hide and skin imports and 79 percent of Japan's imports of cattlehides and calf and kipskins. Argentina, Australia, New Zealand, and Canada are the other principal suppliers in that order. But since 1952 none of these four countries has supplied as much as 10 percent of the total. Shipments from Argentina, Australia, and New Zealand contain a smaller proportion of cattlehides and calf and kipskins than do imports from the United States. In contrast to the prewar pattern, imports from China have been negligible.

Most Japanese cattlehides and calf or kipskins have basically good quality, but because of unsatisfactory methods of take-off they are often damaged by cuts and scoring and scratches on the flesh side. Improper curing methods also frequently impair the quality of the skin. Because there is no quality control or grading system, the quality varies widely. For this reason, and also because domestic production cannot supply bulk purchases of a given type or quality of hides, the larger tanneries use almost no domestic cattlehides and calfskins, but consume the bulk of the imported hides. The small tanneries, on the other hand, are not equipped to undertake the processing of other than the fresh domestic hides; besides, they prefer the lighter domestic hides to the heavier imported ones. Thus, the small tanneries process practically no imported cattlehides or calfskins but constitute the principal market for the domestic.

Consumption of horsehides, though increasing, represents less than 10 percent of total consumption. Most of the horsehides are made into shoe uppers, gloves, and case leather. The Japanese are self-sufficient only in pigskin. Most pigskin is used for shoe lining with small amounts going for case and glove leather. Sheepskin is used for roller and other industrial leathers as well as for slippers, linings, and gloves.

At the end of 1953 Japan's tanning and finishing establishments totaled 907, of which 61 percent employed no more than

3 people. The larger tanneries, which do both vegetable and chrome tanning, use principally foreign cattlehides and calfskins, but both foreign and domestic skins of other animals. The byproducts are converted into soap, gelatin, and glue by factories that are often associated with the tanneries.

Small tanneries do only chrome tanning. With their limited capital they depend on rapid turnover and cannot tie up their funds for the length of time required for the vegetable tanning process.

Sole leather, all produced in the large tanneries by vegetable tanning of imported hides, accounts for about 45 percent of Japan's leather output. Upper leathers, the best grades of which are made in the large tanneries from imported skins, constitute about 20 percent of the total. Most upper leathers are made from calf and kipskins, though pigskin and horsehide are also used to a limited extent. Case leather, principally manufactured in small tanneries from domestic hides and skins, accounts for 25 percent of the total. Cowhide, horsehide, calf and kipskin, and pigskin are all used; the quality varies greatly.

Market prospects for imported hides and skins in Japan depend mainly on the demand for leather products by Japanese consumers, because exports of leather products are not at all large. The rising popularity of western modes of dress since the war has affected the consumption of all types of leather goods by the Japanese people. Increasing style consciousness has stimulated the consumption of women's shoes, handbags, and other accessories. Inasmuch as shoes represent the end product for two-thirds of Japan's leather production (sole leather 45 percent and uppers 20 percent), the trend in production and sale of shoes measures fairly accurately the demand for hides and skins.

Domestic consumption of hides and skins will likely continue to increase, and despite an upward trend in livestock numbers, Japan will need additional imports.

The United States should continue to supply a large share of this market. With Argentina, it ranks as one of the world's two largest exporters of hides and skins. Canada, Australia, India, South Africa, Ethiopia, and certain countries of the Middle East also export, but they supply relatively small amounts to the world market.

About two-thirds of Australia's exports consist of sheepskins and lambskins. The bulk of these go to France; Japan imports practically none. Australia's exports of cattlehides and calfskins have been increasing; they amounted to 21,000 metric tons in 1955-56. Japan became the heaviest buyer in that year, taking one-fifth of the total. In New Zealand, also, sheepskins and lambskins represent the bulk of production and exports. The cattlehides produced are mostly used locally; the United States, Italy, the United Kingdom, and West Germany take most of the cattlehides and calfskins that are exported. Canada exports about 30,000 tons of cattle hides and calf and kipskins, about half of which come to the

TABLE 10.--Japan: Imports of hides and skins, by country of origin, 1950-56

Year	United States	Canada	Argentina	Australia	New Zealand	Others	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
1950........	21	(1)	5	2	(1)	8	36
1951........	12	(1)	10	2	1	16	41
1952........	17	1	(1)	4	6	6	34
1953........	34	2	5	3	4	11	59
1954........	32	2	2	2	2	7	47
1955........	45	3	4	2	2	6	62
1956........	50	4	6	5	2	9	76

[1] Less than 500 tons.

United States. These countries may increase sales to Japan somewhat. However, no one of them has sufficient supplies to make serious inroads in that market, especially considering the desirability of diversifying sales.

As a result of increased slaughter, Argentina has increased its supply of hides for export. In 1956 that country again became the leading exporter of cattlehides and calfskins. Argentine hides, which have excellent quality because of the care exercised in removal and later handling, are higher in price than United States hides. They enjoy a strong demand in Europe. Japan's imports from Argentina have been increasing, though they still are not large. The high prices and long shipping distance will continue to deter Japan's purchases.

The United States, with supplies from its West Coast slaughterhouses, is closer to Japan than any of its competitors except Canada. United States prices are reasonable. As long as Japan is able to earn dollars, the United States should continue to expand its exports with Japan's growing needs.

COTTON

Japan is a leading producer and exporter of cotton textiles. This business depends completely upon imported cotton, since none is produced domestically; and Japan ranks today as the world's largest importer of raw cotton. For this reason the United States, as the world's largest producer and exporter of cotton, has a vital interest in the development of Japan's textile industry.

Ninety years ago the first spinning mill was erected in Kagoshima. From this beginning the cotton textile industry of Japan grew with amazing speed. The golden era for the industry was in the 1930's. Production reached a peak in 1937 with output of pure cotton yarn at 1,586 million pounds. During 1934-36, exports of cotton yarns and fabrics made up 18 percent of Japan's total exports while imports were dominated by raw cotton to an even greater extent.

The war dealt a serious blow to the industry. The 12.6 million spindles in place in 1938 were reduced to less than 3 million as the result of the demands for scrap metal and the damage inflicted by air raids. The cotton textile industry has now been rebuilt to 70 percent of prewar capacity, with 9 million spindles operating. Modern equipment has been installed and production put on an efficient operating basis. Production in 1956 set new postwar records. Output of pure cotton yarn exceeded 1 billion pounds, while production of cotton fabrics reached 3,475 million square yards. Domestic consumption of cotton fabrics has increased and now accounts for 60 percent of production compared to 44 percent prewar. For this reason, and because of the lower level of production, exports are still less than half the prewar average. Exports of both cotton yarns and fabrics now constitute only 12 percent of total exports. The domestic weaving industry uses most of the cotton yarn produced; only 3 percent moves into export.

Although the cotton textile industry has made a remarkable recovery, other industries have grown even more rapidly since the war. Metals, machinery, and chemicals especially have made great strides and have contributed significantly to Japan's recovery in export trade.

This reorientation of the Japanese economy, with reduced emphasis on cotton, has come about principally because of changes resulting from economic development elsewhere in the world. Since the war many countries formerly important markets for Japanese textiles, especially in Asia, have begun to develop their own textile industries. In 1938-39 the consumption of raw cotton in Asia, excluding Mainland China, was 6.7 million bales, of which Japan accounted for 40 percent. By 1954-55 Asia's consumption had increased by 20 percent to 8.2 million bales and Japan's share was only 26 percent. In the interval, consumption in the other countries had expanded by 50 percent. While this has limited the prospects for cotton textile exports, Japan has undertaken to supply textile equipment for many of these plants. And the opportunity to supply many other types of machines and metal products to the so-called underdeveloped countries has not passed unrecognized. Japan has also found markets for such products in Central and South America. With indications for continued industrial expansion in these areas, the relative advantages of the heavy industries in Japan may become even greater. Chemicals too, especially fertilizers, show considerable promise. Exports of cotton textiles may increase somewhat in the future, but in proportion to total exports they are likely to decline.

TABLE 11.--Japan: Imports of cotton, by country of origin, 1950-56

Year	United States	Burma	India	Pakistan	Iran	Mexico	Salvador	Nicaragua	Brazil	Egypt	Others	Total
	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales:[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]	1,000 bales[1]
1950....	1,296	(2)	50	167	0	44	0	0	2	18	38	1,615
1951....	820	19	38	253	5	314	(2)	6	90	58	144	1,747
1952....	967	23	148	292	(2)	341	0	3	51	58	82	1,965
1953....	675	57	100	584	36	458	3	11	65	81	152	2,222
1954....	928	40	70	153	52	472	11	28	272	88	133	2,247
1955....	654	32	172	239	21	445	51	51	193	83	84	2,025
1956....	979	30	180	291	9	729	87	25	202	105	124	2,761

[1] 480 lbs. net. [2] Less than 500 bales.

Despite an increase in the total consumption of cotton textiles in the domestic market, per capita consumption remains about at the prewar level. Per capita consumption of synthetic and chemical fibers, on the other hand, has increased substantially. Both the rayon industry and the other synthetic fiber industries of Japan are moving ahead rapidly. Production of rayon and synthetic fiber rose to 981 million pounds in 1956 from the prewar peak of 541 million pounds in 1938 and the postwar low of 28 million pounds in 1945. This is only 3.6 percent less than the pure cotton yarn output of 1,018 million pounds in 1956.

Throughout the postwar years the Japanese Government has encouraged the growth of the rayon and synthetic fiber industries because the raw materials they use are obtainable domestically in large part, and those they import cost less than cotton. The Ministry of Finance, in particular, finds appealing this possibility of saving the foreign exchange--especially dollars--that is currently spent for raw cotton imports. Both industry and government officials have been optimistic about future expansion of the industry, and both have made extensive plans toward that end.

Indications are that the output of chemical fibers will before many years substantially exceed the production of cotton yarn. How quickly and to what extent this may take place depends upon several factors. The cotton industry has taken heart from the United States policy of making cotton available for export at competitive prices beginning in 1956. The reduction in the price of United States cotton, along with lower prices for certain other growths, has improved the competitive position of the cotton textile firms. Furthermore, the price of rayon staple has dropped to approximately the break-even point--probably in association with the cotton price adjustment. In the domestic market, cotton products have had an added boost from a concentrated cotton promotion program.

Increased production abroad may make the expansion of cotton textile exports more difficult, and sales may face increased restrictions imposed specifically against Japanese goods. Exports of chemical fiber products, however, are by no means immune to the same possibility.

For the next several years the cotton textile industry should make some gains but these will probably not be large. Imports of raw cotton, which have exceeded 2 million bales annually since 1952, will increase accordingly. Some observers feel that the industry can now effectively handle 2.4 million bales annually and that cotton import requirements will increase only gradually from this level.

About 90 percent of Japan's cotton imports come from 6 countries. Over the past 4 years the United States has supplied 35 percent of the total and Mexico 23 percent. The other 4 countries in order of importance are Pakistan, Brazil, India, and Egypt. A long list of other countries supplies the remaining 10 percent. Imports from El Salvador and Nicaragua have increased sharply but the amounts are still small.

The large shipments from Mexico have resulted from competitive pricing plus a sharp increase in production. Output soared from 334,000 bales prewar to more than 6 times that amount in 1955, when production reached a record level of 2.2 million bales. However, this was the highest production on record, considerably above the immediately preceding years, and the 1956-57 crop is down again by some 400,000 bales. Mexico's expanded irrigation facilities periodically face the problem of inadequate water supplies. Cotton production in the years ahead may level out at somewhat above the 1955 record production. The record output in 1955 put Mexico in a position to capitalize on Japan's expanded demand in 1956. Mexico's policy of selling cotton just under United States prices in 1955 made its cotton attractive to Japanese buyers. European buyers were equally responsive to this differential and bought large quantities of Mexican cotton that year. However, Mexico now uses more cotton at home; consumption rose to about 475,000 bales in 1955-56, about double prewar. Thus though Mexico will remain a leading supplier to Japan, demand from domestic and European buyers will continue to take a large share of the crop.

Japan has been the principal market for Pakistani cotton since 1952. Exports from Pakistan have trended downward, however, because of increases in consumption at home--from 75,000 bales in 1947-48 to 675,000 bales in 1954-55. Japan bought heavily in 1953 in accordance with a trade agreement at that time. Japan's future purchases will probably run about 250,000 bales, or about at the level prevailing since 1953.

Japan is also the largest foreign buyer of Indian cotton. India ranks third after the United States and Russia in both the production and consumption of cotton. Though it both exports and imports cotton, its imports generally exceed its exports in volume. Production has increased, but so has consumption, which exceeded 4 million bales in 1954-55--nearly matching the record output of 4.4 million bales in that year. India's exports have fluctuated considerably but generally remain below 200,000 bales. In 1955-56, however, they reached the unusual height of 552,000 bales. As a result of this and the reduced crop in that year, India now has run short of cotton. It has therefore curtailed its exports, and they are not expected to exceed 150,000 bales in the 1956-57 year. India will, therefore, supply less cotton to the Japanese market this year. For the longer run, Japan may continue to obtain 150,000 bales from this source, but India will find increasing advantages in processing its own cotton with its own expanding and efficient textile facilities.

Brazil's cotton production continues at only 80 percent of the prewar level. Exports have fluctuated greatly since 1950, but since 1953 Japan has been the largest buyer. Yet, with more spindles in place, domestic consumption has increased

50 percent since prewar, and accounted for nearly 60 percent of the cotton produced in 1954-55. After allowing for additional consumption at home and some further recovery in production, Brazil may reasonably expect to export 500,000 to 700,000 bales of cotton annually over the next 4 or 5 years. How much of this Japan may buy will depend upon prices, demand for cotton elsewhere, and prospects for increasing Japanese exports to Brazil. Present indications are that Japan may take upwards of 200,000 bales of Brazil's export availabilities.

Egypt is a large producer of ordinary and extra long staple cotton and the bulk of it is exported. India, France, West Germany, and Italy have been the principal buyers. But in accordance with the recent agreement with Soviet Russia, Egypt has begun to move increasing quantities to Communist countries and will probably continue to do so. Japan needs some Egyptian long staple cotton for making finer fabrics, and if it is available may continue to buy upwards of 100,000 bales a year.

The prospects for American cotton in the Japanese market have greatly improved since the announcement of the United States Government's competitive pricing policy. The Japanese had for some time argued that they could not continue to purchase large quantities of United States cotton at Commodity Credit Corporation prices. This problem became pressing when Japan had difficulty in making adequate dollar purchases to meet the normal marketing requirements to qualify for yen purchases under the second Public Law 480 agreement. After the price reduction, Japanese imports increased greatly in 1956.

For several years now the United States has made available through the Export-Import Bank substantial credits to finance Japanese purchases of United States cotton. Besides these cotton loans, the Bank has now extended an Agricultural Commodities credit for $115 million, of which $50 million is for cotton. Lower interest rates on these funds from the Bank have somewhat offset the disadvantage of higher United States cotton prices, for Japanese traders buying other growths must borrow at high interest rates in the Japanese money market.

All things considered, American cotton interests may reasonably expect continued large sales to Japan but no rapid expansion. Competitive prices for raw cotton have helped the Japanese cotton industry compete vigorously with the chemical fiber industry since August 1956. With continued promotion, sales of cotton textiles in the domestic market can be expanded; export sales, too, may be expected to increase. Other exporters of raw cotton will continue to compete, but they will have other areas of demand to fill as well. Thus the United States should continue to supply a third or more of Japan's raw cotton imports.

TOBACCO

The cultivation, importation, manufacture, and distribution of tobacco and tobacco products are closely controlled by the Japan Monopoly Corporation.

Farms on which tobacco is to be cultivated are selected on the basis of soil type, accessibility to the Corporation's leaf purchasing stations, and the skill of the farmer in applying recommended techniques. Tobacco cultivation is relatively profitable and farmers are usually eager to be designated by the Monopoly. There are more than 525,000 licensed producers of tobacco, organized by the Monopoly into tobacco growers' associations. Through these associations the Monopoly exercises control regarding amounts and types to be grown, cultivation practices, and the purchase of leaf.

Japan is nearly self-sufficient in tobacco. Production has steadily increased, reaching 150,000 metric tons in 1955 and 1956. Cultivation of flue-cured has expanded rapidly since World War II in order to improve the quality of cigarettes as well as to meet the increasing demand for them. Production of flue-cured has tripled since prewar and now makes up nearly two-thirds of the total tobacco output. Production of Burley, which was introduced from the United States in 1938, reached 9,200 tons by 1943 but declined to 1,500 tons in 1954. In 1956, however, it returned to 3,400 tons. Production of native tobacco has increased about 40 percent over prewar and now makes up about one-third of the total output.

Japanese flue-cured tobacco is heavier bodied and somewhat less fragrant than the flue-cured grown in the United States. Native tobacco is dark and thin, similar to some of the Chinese native tobacco. It is used as pipe tobacco and as filler in blended cigarettes. The principal use of Burley is in cigarette mixtures. The Monopoly pays the highest prices to farmers for flue-cured tobacco and the lowest prices for Burley.

Cigarettes and pipe mixture account for the bulk of the tobacco products manufactured in Japan with more than 90 percent of the total in cigarettes. Cigar production is insignificant, while chewing tobacco and snuff are not manufactured at all.

Only the Monopoly Corporation, or a firm authorized by it, may import leaf tobacco. The Corporation works out an import program for each fiscal year based on the size of the domestic crop, anticipated consumption, the need to maintain or alter stocks, and availability of foreign exchange. This program becomes a part of the government's foreign exchange budget.

The volume of imports has varied considerably over the past several years, with a maximum of 10,473 metric tons in 1955. The United States has supplied nearly half of the total. The remainder came almost entirely from India, plus small amounts from Indonesia in 1954 and 1955. The heavy imports in 1955, both total and from the United States, reflect the

TABLE 12.--Japan: Imports of tobacco, by country of origin, 1950-56

Year	United States	Indonesia	India	Others	Total
	Metric tons	*Metric tons*	*Metric tons*	*Metric tons*	*Metric tons*
1950............	0	0	1,086	2	1,088
1951............	1,989	0	1,281	0	3,270
1952............	3,600	0	6,603	1	10,204
1953............	2,658	0	4,116	6	6,780
1954............	3,816	222	3,205	4	7,247
1955............	5,921	1,514	2,640	398	10,473
1956............	4,173	0	1,351	180	5,704

trade under Public Law 480 and also the Japanese efforts to build up stocks.

From the United States, Japan imports flue-cured, much in demand for blending in certain brands of cigarettes to improve the quality. Imports are limited, however, by the fact that it is more costly than other imported tobaccos. The cigarettes that use United States flue-cured sell at higher prices depending upon the blending percentage.

All operations of the Monopoly Corporation--including the setting of prices to producers, the determination of imports, and the pricing of tobacco products--are geared to one objective: securing revenue for the National treasury. During the 1954 fiscal year Monopoly profits made up one-eighth of total Central Government revenues from all sources.

Japan now has large stocks of high-grade leaf tobacco, accumulated from the heavy imports of United States tobacco in 1955 and from the large crops of flue-cured in 1955 and 1956. To offset these stocks, the Monopoly has cut producer prices for the higher grades of flue-cured and native leaf. And to expand consumption of the United States leaf, the Monopoly increased the blending percentages in two of the higher quality brands of cigarettes. Sales of the two brands containing the largest percentage of United States leaf have been increasing since their prices were reduced in March 1956.

Japanese smokers like the cigarettes that contain United States flue-cured tobacco. This quality leaf does not compete directly with other imported leaf or with Japanese domestic production. The amount that Japan buys does not depend so much upon offerings of other tobacco exporting countries as upon the pricing policies of the Monopoly Corporation and the ability of Japanese smokers to pay the prices set on the cigarette brands using United States tobacco in blend.

Japan's per capita consumption of tobacco is low, as is the number of smokers in relation to total population. Continued prosperity in the years ahead, with per capita incomes rising above the present level of only slightly more than $200 per year, will stimulate tobacco consumption. Not only will more people smoke, but more people will be able to afford the higher quality brands of cigarettes.

OUTLOOK

The past 2 years have been years of unparalleled prosperity for Japan. 1956 was even better than 1955. The estimated rate of growth of gross national product was about 11 percent in 1956. Industrial production increased by more than 21 percent, exports by more than 24 percent, and imports by more than 30 percent. Consumption levels recorded a considerable increase and business profits were higher than in any postwar year.

The core of Japan's prosperity in 1956 was the high level of investment in new plant and equipment and inventories. More than in other postwar years, the introduction of modern techniques in plant and equipment spread throughout practically all sectors of industry. Higher productivity, automation, and the introduction of new products gained increasing importance as elements in Japan's expansion.

The rising volume of business led to a general improvement in cost structures. Small businesses participated in the general prosperity. With rising employment consumers' incomes and expenditures increased and so did savings.

Increased output was recorded in nearly all industrial sectors. Cotton yarns and fabrics showed considerable increase over 1955. Production of soap, leather, and shoes also moved upwards. These are industries that use agricultural raw materials imported from the United States in large quantities.

Some signs of weakness have appeared, but the mood of the business community and government officials is far from pessimistic. Although 1957 may be a less spectacular year, final returns on it are expected to show further substantial economic growth in Japan.

Continued industrial expansion and plans for increased productivity per worker will provide strong supports for continued heavy imports of agricultural products, certainly of those in the "Big 9" category.

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